3333 California Street Development Agreement

Economic Impact Report

CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Economic Analysis

Items # 190844 and 190845

10.16.2019

Introduction

- On July 30, 2019, supervisor Stefani introduced ordinance (#190844) to create the 3333 California Street Special Use District (SUD) and also introduced ordinance (#190845) approving the Development Agreement (DA) between the City and the Laurel Heights Partners LLC for the development of about 10.25 acres site.
- The project site is currently used by the University of California, San Francisco (UCSF) Laurel Height Campus.
- The proposed SUD legislation would change allowable heights on a portion of the project parcel. The height changes will affect 6 acres of the total of 10.25 acres area.
- The proposed ordinance would also revoke a 1952 Planning Commission Resolution which prohibits retail uses and limits the overall residential density on the project site.
- The Office of Economic Analysis has prepared this report after determining that the proposed ordinances could have a material economic impact on the city's economy.

Existing Uses at the Project Site

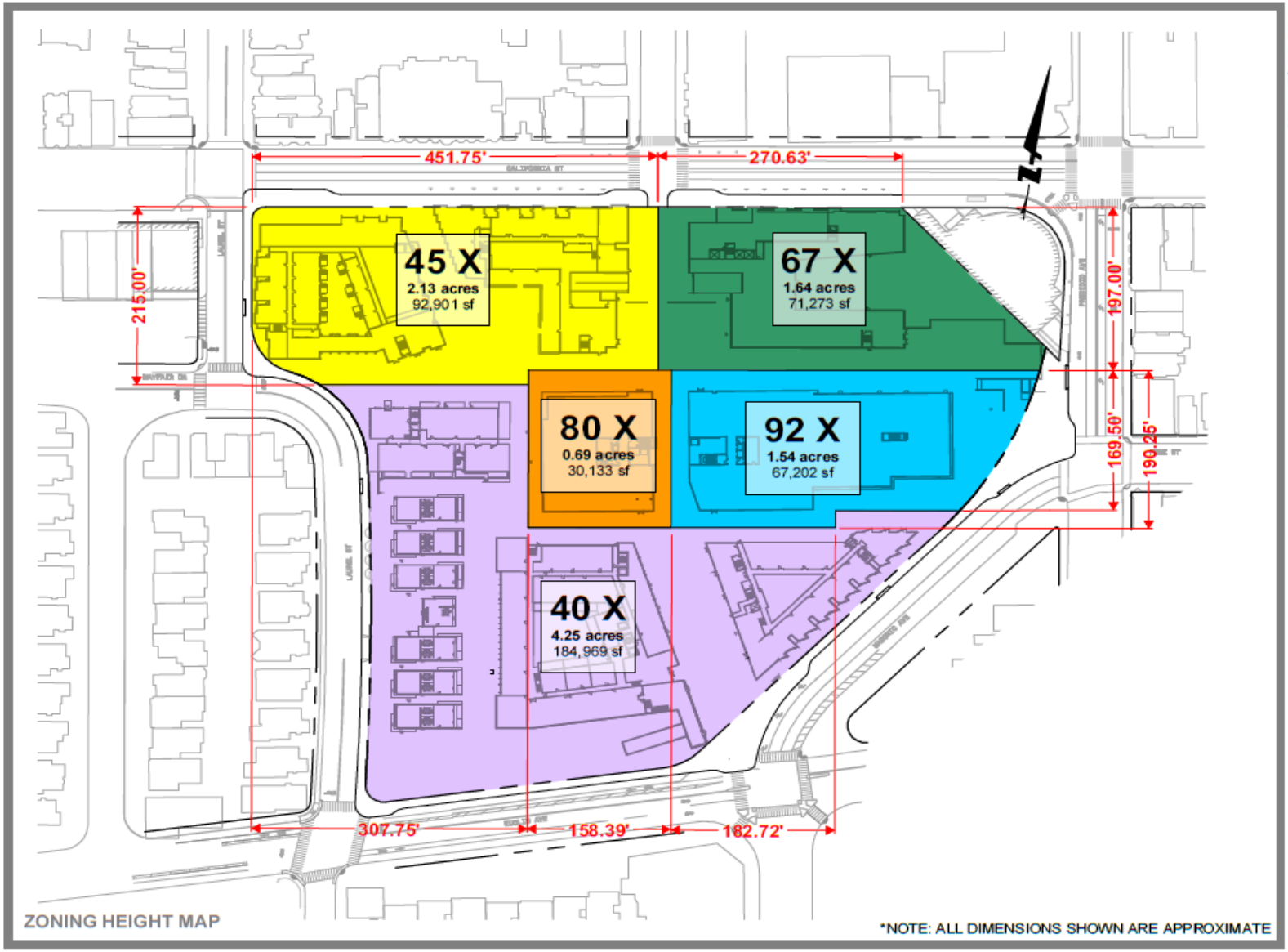
- The project site currently serves as the University of California, San Francisco (UCSF) Laurel Height Campus. Current uses on the site are office, research, laboratory, childcare and parking.
- The campus contains a four-story, 455,000 sq. ft. office building as well as a one-story, 14,000 sq. ft. annex building (serving building facilities and plant operation functions) at the corner of California and Laurel Street.
- The campus has a 11,500 sq. ft. daycare facility as well.
- The site also has three surface parking lots as well as a 93,000 sq. ft. three-level, partially below-grade parking garage.
- The existing building's office usage and its 55.5 feet height are both considered legal-nonconforming under the existing RM-1 zoning.
- The aerial map of the existing building is presented on the next slide.

Existing Project Site : Aerial View

Proposed SUD Height and Bulk Changes

Property Description	Block/Lot	Parcel Area (Acre)	Existing (Height and Bulk)	Proposed (Height and Bulk)
Northwestern portion from California Street south and Laurel Street east.	1032/003	2.13	40-X	45-X
Northeastern portion from California Street south and northeastern most corner along the California Street frontage.	1032/003	1.64	40-X	67-X
Area centrally located within south of California Street.	1032/003	0.69	40-X	80-X
Area centrally located on the eastern side of south of California Street.	1032/003	1.54	40-X	92-X
Total		6.00		

Map of Proposed Height Changes



Description and Overview of the Project

- The proposed project at 3333 California Street as outlined under the Development Agreement (DA) is a mixed-use project consisting of 744 housing units, including 558 market-rate units and 25% on-site affordable senior housing units (185 units + 1 manger unit).
- The project would also include 34,496 sq. ft. of retail space as well as 14,000 sq. ft. of child care center for approximately 175 seats, serving the community living in those residential units.
- Over 2 acers of publicly accessible open space as well as 857 off-street parking spaces will also be provided as part of the project.
- The proposed project will reuse portion of the existing office building, divided into two separate buildings adapted for residential use. Thirteen new will buildings would also be constructed throughout the site for residential as well as non-residential uses.
- Under the DA, the project is entitled for 15 years, after which the developer loses the right to build the project and would have to reapply to the city for the new entitlement.

Site's Maximum Potential under the Existing Zoning

- The project site is considered underutilized and is predominantly occupied by surface parking lots, driveways, open space, and a large noncomplying and nonconforming office building.
- Although the office use is not permitted under the existing RM-1 zoning, the current office use is considered legal and can continue to exist as such on the site.
- In the absence of any SUD changes and the development agreement (DA), the site will most likely be built to its maximum capacity, while preserving the existing office space (which can be considered as its highest and the best use given current office market conditions in the city).
- Under this likely scenario, the site will maximize the residential potential on the remaining underutilized portion of the 10.25 acres.
- The OEA estimates that the site can potentially add 361 residential units in addition to the exiting office space, when underutilized land's potential is fully maximized.
- The next slide compares the difference in the development capacity at build-out between what is being proposed under the DA/SUD changes and what the OEA estimates as the site's maximum potential under the existing zoning.

Difference in Development Capacity at Build-out

Usage	Proposed Project under the SUD and the DA	Current Site (Existing Zoning)	Difference
Office (Sq. Ft.)	0	338,000	-338,000
Retail	34,496	0	34,496
Total Non-residential Use (Sq. Ft.)	**34,496**	**338,000**	**-303,504**
Residential Use			
Residential Space (Sq. Ft.)	978,611	475,425	503,186
New Housing Units	744	361	383
Affordable Units	*186*	*65*	*121*

Economic Impact Factors

- The proposed development is expected to affect the local economy in three major ways:
  1. The re-zoning will increase the number of housing units on the site. This will put downward pressure on prices and rents for residential real estate across the city, making city housing prices modestly more affordable.
  2. Under the proposed project there will be a loss of office space in the city, which will put an upward pressure on office rents.
  3. The demolition and construction activity following the rezoning and development agreement will generate additional construction activity.
- The OEA analyzed and modeled the difference in development potential of the site under the proposed rezoning and the DA and compared its full potential under the exiting zoning (as explained on slides 8 and 9).

Impact of New Housing

- All else constant, an increase in the housing supply will reduce residential rents and home prices in the city.
- The OEA estimates that these additional 383 units have the potential to reduce housing prices by 0.15%, not taking into account any changes in employment or population as a result of the proposed development.
- When accounting for employment and population changes resulting from this development, we estimate a net reduction of housing prices of 0.05% (see slide 15).

Impact of Affordable Housing Subsidy

- Low-income households generally experience a higher housing burden than higher-income households. An increase in the number of affordable units will decrease the housing burden for low-income households who can qualify for and occupy those units.
- Under the development agreement, the project would provide 25% of the on-site housing as affordable (compared to an existing 18% requirement to provide on-site affordable units or pay the city in-lieu affordable housing fee).
- This would create a potential to build an additional 121 units as shown on slide 9.
- The OEA further estimates that at build-out these additional affordable units would reduce low-income housing payments by $0.84 million annually to the households who would occupy these units or $6,906 per household.

Impact on Office Space

- As proposed, the project will adaptively reuse portions of the existing office building and convert it for residential use.
- There would be a net decrease in the commercial office space on the project site but those office uses will likely move to other suitable office spaces in the city.
- But the loss of office space due to the proposed project would likely result in higher office rents because of competition for the limited office space in the city.
- The OEA estimates that the citywide office rent could rise by 0.5% (see Appendix). This would likely result in $32.4 million higher rents annually in the office market across the city.

REMI Model Inputs

- The OEA uses the REMI model to simulate the impact of the proposed re-zoning and the development agreement potential difference (as shown on slide 8) on the city's economy. The simulation inputs are presented below.

Inputs	Value
Housing Price Change	-0.15%
Affordable Housing Subsidy Value ($ million)	$0.8
Value of Residential Investment ($ million)	$553.5
Value of Non-Residential Investment ($ million)	$8.9
Change in Rent for Office Space ($ million)	$32.4

Economic Impact Assessment

- The project is assumed to develop over a fifteen-year period, from 2020-2034. The average city-wide impacts at buildout are shown in the table below.

Citywide Impacts	REMI Simulation Results
Employment Change	187
Population Change	248
GDP Change ($2018, million)	$31.4
Housing Price Change	-0.05%

Conclusions

- The proposed rezoning and the associated project under the development agreement will expand the city's economy.
- Employment, population, and GDP are all expected to rise as a result of the proposed project under the associated zoning, land use and development agreement changes.
- The OEA estimates that, on average, over the forecast horizon, the differential potential of the project would add 187 jobs or $31.4 million annually to the local GDP.
- The REMI simulation results further show that citywide housing prices are expected to decline by 0.05 percent as a result of additional project housing supply, after taking into account any associated population and employment changes.

Appendix

Calculation of Impact on the Office Rents

Total office space in the city (sq. ft.)	=	107,174,222
Loss of office space under the development agreement (sq. ft.)	=	-338,000
Decrease in office space (%)	=	-338,000 / 107,174,222 = -0.32%
Elasticity of demand for office (Ed)	=	-0.62
Elasticity of supply for office (Es)	=	0.02
Impact on office rents	=	-Decrease in office space / (Es - Ed)
Impact on office rents	=	0.32 / (0.02 + 0.62) = 0.32 / 0.64 = 0.5%

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